



# MICHIGAN ECONOMIC UPDATE

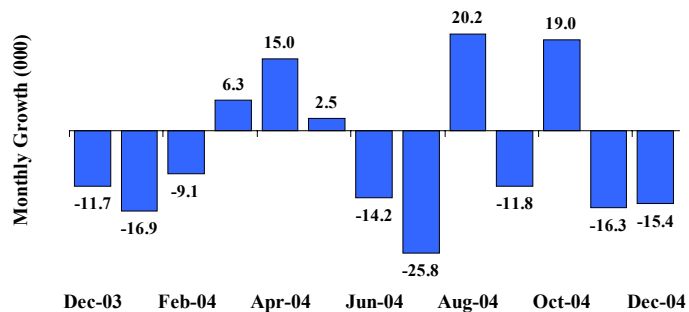
Economic and Revenue Forecasting Division  
Bureau of Tax and Economic Policy  
Michigan Department of Treasury  
<http://www.michigan.gov/treasury>

## December 2004 Summary

**U.S. Economy:** In December, U.S. economic indicators pointed to continued moderate growth. The ISM manufacturing index and the non-manufacturing index have both signaled sector growth for over a year and a half. Both the index of leading economic indicators and consumer sentiment rose for the second straight month. Industrial production reported a solid increase. Retail sales reported strong growth, boosted by motor vehicle sales increases. The Conference Board CEO confidence index declined for the third straight quarter.

**Employment:** Michigan's employment fell for the second straight month, falling by 15,000 jobs. Job losses in professional and business services (-9,000) led the decline. The state's unemployment rate rose 0.3 of a percentage point to 7.3 percent. Nationally, payroll employment increased by 157,000 jobs. The U.S. unemployment rate remained unchanged at 5.4 percent. In 2004 Michigan's unemployment rate fell from 7.3 percent to 6.8 percent. However, Michigan wage and salary employment declined for the fourth straight year.

### Michigan Employment Falls For Second Straight Month<sup>(a)</sup>



**Auto Industry:** In 2004, light vehicle sales totaled 16.8 million units, marking the sixth straight year that sales exceeded 16.5 million units. Michigan vehicle production declined for the second straight year, falling 6.7 percent. Nationally, vehicle production decreased 0.9 percent. In 2004, light vehicle inventories rose by about 6 percent.

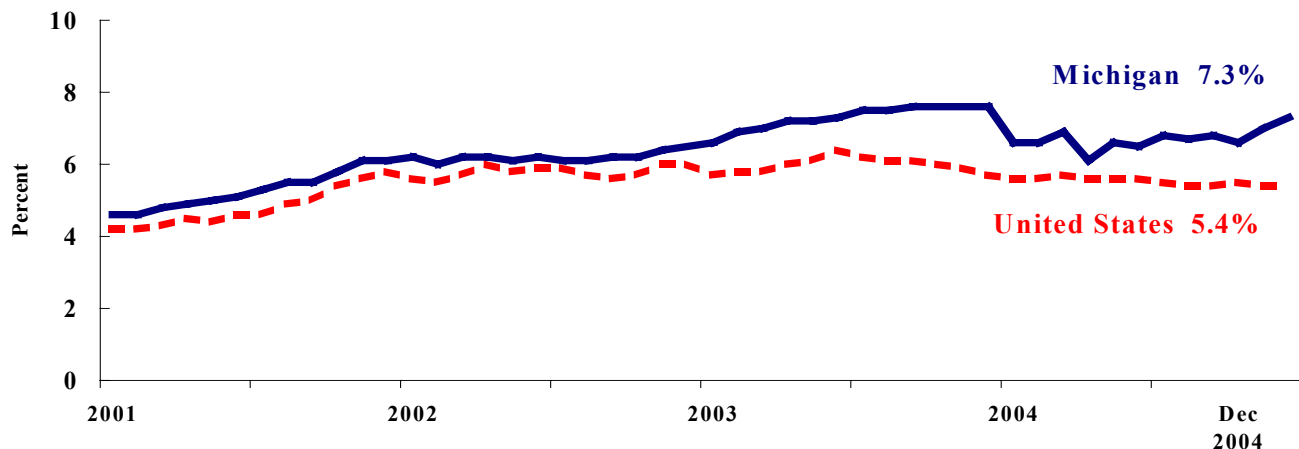
**Inflation:** In 2004, overall U.S. consumer prices rose by 2.7 percent. Excluding volatile food and energy prices, "core" consumer prices rose 1.8 percent. The overall Detroit CPI rose 1.6 percent in 2004.

**Michigan Metro Areas:** Between November 2003 and November 2004, the unemployment rate declined in ten of Michigan's twelve labor market areas, was unchanged in one area and increased in the other.

## Labor Market Statistics

- Michigan's December monthly unemployment rate rose 0.3 percentage points to 7.3 percent. The current Michigan jobless rate is 0.3 percentage points below a year ago. Michigan's preliminary annual average unemployment rate for 2004 was 6.8 percent, down from 7.3 percent in 2003. The December U.S. unemployment rate remained unchanged at 5.4 percent and was 0.3 percentage points lower compared to a year ago. Monthly unemployment rates fluctuate due to statistical sampling errors and data revisions.

### Michigan and U.S. Monthly Unemployment Rates 2001 to 2004



Source: Michigan Dept. of Labor and Economic Growth and Bureau of Labor Statistics, U.S. Dept. of Labor

- The number of people employed in Michigan was 4,686,000 in December, down 33,000 from last month, while the labor force decreased by 19,000. Therefore, the statewide total number of unemployed rose by 14,000 to 369,000.
- United States household employment totaled 140.2 million persons in December, down 137,000 from November. The labor force fell by 110,000 from last month, which meant that there were 27,000 more unemployed people nationally, compared to November 2004.

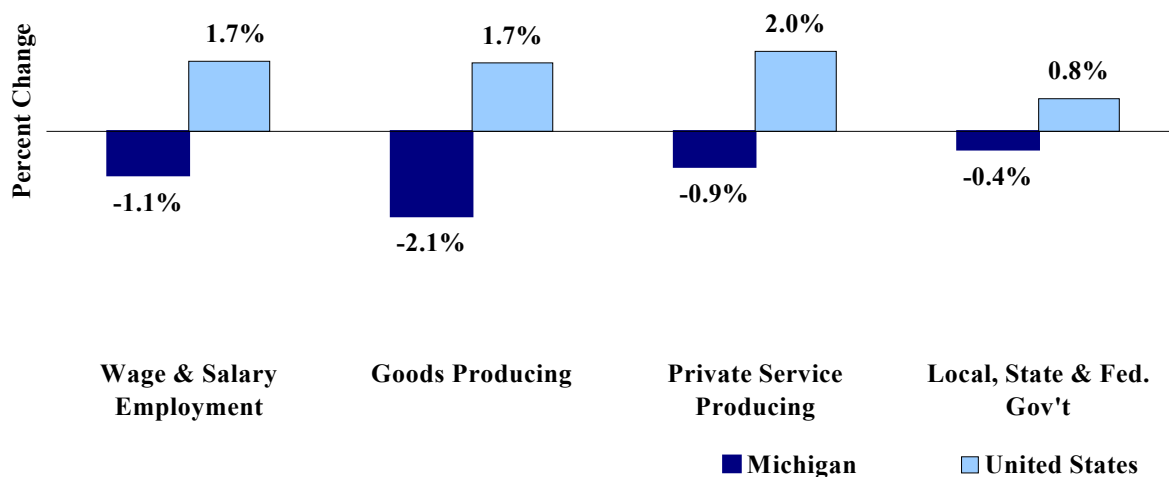
### Employment by Place of Residence (in thousands)<sup>(a)</sup>

	2003 Average	Oct 2004	Nov 2004	Dec 2004	Change From			
					Prior Month		Last Year	
					Level	%	Level	%
Michigan								
Labor Force	5,042	5,086	5,074	5,055	-19	-0.4%	n.a.	n.a.
Employed	4,674	4,748	4,719	4,686	-33	-0.7%	n.a.	n.a.
Unemployed	368	338	355	369	14	3.9%	n.a.	n.a.
Unemployment Rate	7.3%	6.6%	7.0%	7.3%	n.a.	0.3% pts	n.a.	-0.3%
United States								
Labor Force	146,510	147,893	148,313	148,203	-110	-0.1%	n.a.	n.a.
Employed	137,736	139,827	140,293	140,156	-137	-0.1%	n.a.	n.a.
Unemployed	8,774	8,066	8,020	8,047	27	0.3%	n.a.	n.a.
Unemployment Rate	6.0%	5.5%	5.4%	5.4%	n.a.	0.0% pts	n.a.	-0.3%

## Employment by Place of Work

- From December 2003 to December 2004, Michigan wage and salary employment declined 47,000 (0.9 percent). State wage and salary employment decreased 15,000 from November. Michigan's preliminary annual average of wage and salary employment declined for the fourth straight year. Nationally, December 2004 wage and salary employment rose 2,231,000 (1.7 percent) from a year ago and was up 157,000 from last month.

### Wage and Salary Employment Growth December 2003 to December 2004



Source: Bureau of Labor Statistics, Michigan Department of Labor and Economic Growth

- In the goods producing sector, Michigan employment fell 2.1 percent from a year ago and private service-producing sector employment decreased 0.9 percent compared to last year. From a year ago, December national employment in the goods-producing sector rose 1.7 percent and increased 2.0 percent in the private service-producing sector.
- Manufacturing weekly hours fell in Michigan by 0.1 hours compared to last year.

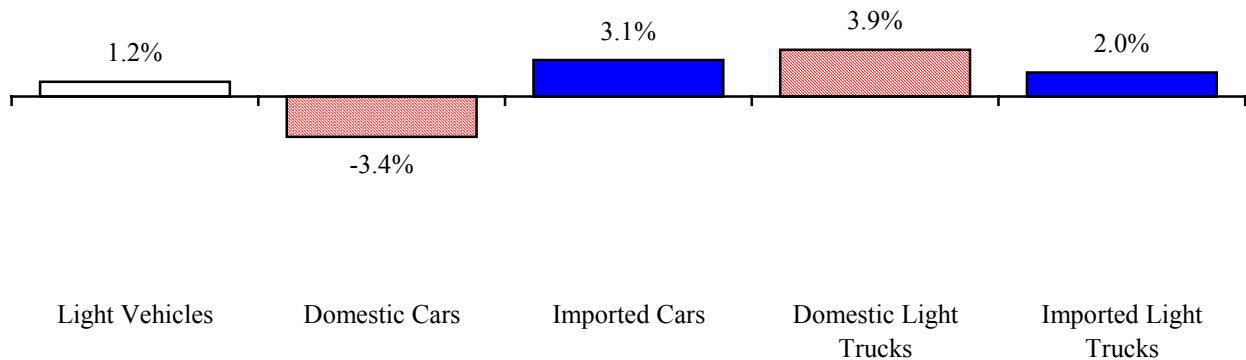
### Establishment Employment (in thousands)<sup>(b)</sup>

	Michigan				United States			
	2003 Average	Dec 2003	Dec 2004	Percent Change	2003 Average	Dec 2003	Dec 2004	Percent Change
Wage & Salary Employment	4,412	4,392	4,345	-1.1%	129,931	130,035	132,266	1.7%
Goods Producing	925	916	897	-2.1%	21,817	21,668	22,030	1.7%
Manufacturing	727	717	700	-2.4%	14,525	14,324	14,400	0.5%
Private Service Producing	2,805	2,798	2,774	-0.9%	86,538	86,823	88,520	2.0%
Trade, Trans. & Utilities	815	808	795	-1.6%	25,275	25,211	25,580	1.5%
Services	1,700	1,701	1,698	-0.2%	50,092	50,456	51,658	2.4%
Local, State & Fed. Gov't	681	678	675	-0.4%	21,575	21,544	21,716	0.8%
Manufacturing Weekly Hours	42.1	42.9	42.8	-0.1 hrs	40.4	40.6	40.5	-0.1 hrs

### Motor Vehicle Industry Sales

- At 16.8 million units, 2004 light vehicle sales were up 1.2 percent from 2003. Foreign light vehicle sales were up 2.7 percent while domestic sales increased 0.9 percent. 2004 marked the sixth straight year that overall light vehicle sales totaled more than 16.5 million units. The traditional Big Three market share continued to fall, with their share at 58.7 percent for 2004, a record low. Heavy truck sales rose sharply in 2004, increasing 31.0 percent.
- In 2004, import car sales rose 3.1 percent. Domestic light truck sales increased 3.9 percent while import light truck sales rose 2.0 percent. Domestic car sales fell 3.4 percent.
- December 2004 light vehicle sales were up 5.4 percent from December 2003. Light vehicle inventories rose 1.0 percent while days supply decreased by 2 days to 66 days.

### 2004 Light Vehicle Sales Up Slightly From 2003



### Motor Vehicle Sales Statistics

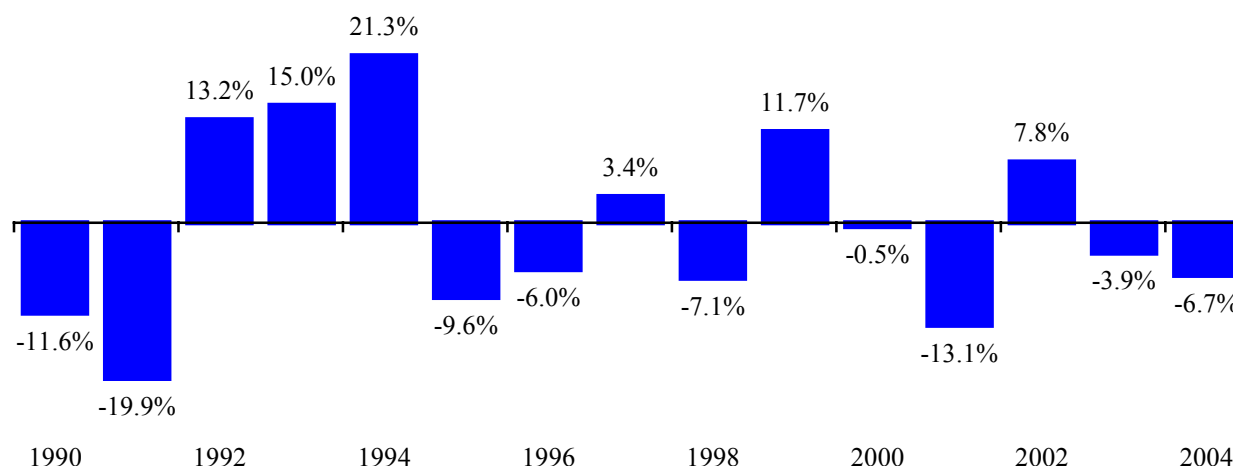
(Millions, unless otherwise specified)

Motor Vehicle Sales <sup>(c)</sup>	2004 Average	Oct 2004	Nov 2004	Dec 2004	3 Month Average	Change from Year Ago	
						Level	%
Autos	7.5	7.5	7.3	8.3	7.7	0.7	9.5%
Domestics	5.3	5.1	5.1	5.9	5.4	0.4	6.7%
Imports	2.2	2.5	2.2	2.3	2.3	0.3	17.3%
Import Share	28.7%	32.8%	30.3%	28.3%	30.4%	1.9% pts	
Light Trucks	9.3	9.4	9.0	10.1	9.5	0.2	2.3%
Domestics	8.1	8.1	7.8	8.7	8.2	0.0	0.4%
Imports	1.2	1.3	1.2	1.4	1.3	0.2	16.0%
Import Share	13.3%	13.9%	13.7%	13.5%	13.7%	1.6% pts	
Total Light Vehicles	16.8	16.9	16.3	18.3	17.2	0.9	5.4%
Heavy Trucks	0.4	0.5	0.5	0.5	0.5	0.1	31.4%
Total Vehicles	17.3	17.4	16.8	18.9	17.7	1.1	6.0%
<b>U.S. Light Vehicle Inventories<sup>(d)</sup></b>		<b>Oct-04</b>	<b>Nov-04</b>	<b>Dec-04</b>	<b>3 Month</b>	<b>Change</b>	
Total Car	1.503	1.433	1.507	1.431	1.457	-0.123	
Days Supply	62	66	70	59	65	-11 days	
Total Truck	2.410	2.369	2.432	2.344	2.382	0.161	
Days Supply	80	86	86	72	81	5 days	

## Motor Vehicle Industry Production

- At 2,596,312 units, 2004 Michigan light vehicle production fell 6.7 percent from 2003 compared to a 0.9 percent decline nationally. As a result, Michigan's share of national production fell from 22.9 percent to 21.6 percent. State car production declined 17.6 percent while Michigan light truck production rose 6.5 percent. Nationally, car production decreased 6.0 percent and light truck production increased 2.1 percent.
- In 2004, Michigan auto production comprised 48.4 percent of the state's vehicle production, down from 54.8 percent in 2003 and 61.9 percent in 2002. Nationally, auto production accounted for 35.3 percent of 2004 U.S. vehicle production.
- The Michigan three-month average of vehicle production (October-December) was down 5.3 percent from a year ago, compared with a 4.5 percent decline nationally.

### Light Vehicle Production Down in Michigan For Second Straight Year <sup>(f)</sup>



### Motor Vehicle Production Statistics

(Thousands, unless otherwise specified)

	2004 Average	Oct 2004	Nov 2004	Dec 2004	3 Month Average	Change from Year Ago for the Month	
						Level	%
<b>U.S. Production <sup>(e)</sup></b>							
Autos	353.8	357.3	324.7	307.3	329.8	(1.9)	-0.6%
Trucks	647.8	702.6	627.6	578.2	636.1	(13.3)	-2.2%
Total	1,001.5	1,059.9	952.3	885.5	965.9	(15.2)	-1.7%
<b>Michigan Production <sup>(f)</sup></b>							
Autos	104.8	107.7	85.4	96.9	96.7	(18.0)	-15.6%
Trucks	111.5	135.1	121.5	112.9	123.2	12.9	12.9%
Total	216.4	242.8	206.9	209.8	219.8	(5.1)	-2.4%
Michigan as % of U.S.	21.6%	22.9%	21.7%	23.7%	22.8%	-0.2% pts	

## November 2004 Unemployment Rates Fell in Ten Labor Market Areas (Not Seasonally Adjusted)

Compared to a year ago, November 2004 unemployment rates fell in ten of the state's twelve major labor market areas. Three labor market areas reported declines of 1.0 percentage point or more. The median decline was 0.8 of a percentage point. One area reported no change and one recorded an increase in its unemployment rate from a year ago.

The Northeast Lower Michigan area reported the largest decline from a year ago (1.3 percentage points) followed by the Grand Rapids MSA (1.2 percentage points). The Jackson MSA reported the next largest decline (1.0 percentage point). Five areas reported a decline of 0.8 of a percentage point. The Lansing MSA reported a 1.7 percentage point increase in its unemployment rate, while the Ann Arbor MSA recorded no change.

November 2004 unemployment rates ranged between 3.8 percent (Ann Arbor) and 8.8 percent (Northeast Lower Michigan). Compared to October unemployment rates, all areas reported higher non-seasonally adjusted unemployment rates. Increases ranged between 0.3 of a percentage point and 2.4 percentage points.

Compared to November 2003, unemployment rates fell in 69 counties. The average decline was 1.0 percentage point. The unemployment rate rose in 13 counties and remained the same in one county.

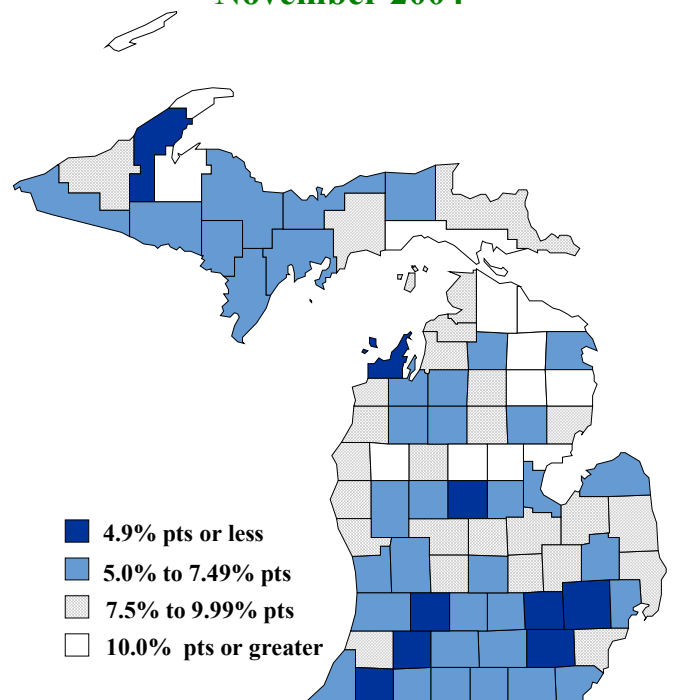
Among Michigan's 83 counties, 71 counties reported a November unemployment rate of less than 10.0 percent. Nine counties recorded an unemployment rate of less than 5.0 percent.

### Local Area Unemployment Rates<sup>(g)</sup>

<u>Local Area</u>	<u>Nov 2003 Rate</u>	<u>Nov 2004 Rate</u>	<u>Latest 3 Month Average</u>
Michigan	6.9%	6.5%	6.2%
Ann Arbor MSA	3.8%	3.8%	3.7%
Benton Harbor MSA	7.3%	6.5%	6.3%
Detroit PMSA	7.0%	6.6%	6.5%
Flint MSA	9.1%	8.3%	8.2%
GR-Musk-Holl MSA	7.3%	6.1%	6.0%
Jackson MSA	7.4%	6.4%	6.2%
Kal-Battle Creek MSA	6.1%	5.8%	5.6%
Lansing MSA	4.5%	6.2%	5.7%
Sag-Bay-Midland MSA	8.0%	7.2%	7.1%
Upper Peninsula	7.4%	6.6%	5.5%
Northeast Lower Mich	10.1%	8.8%	7.1%
Northwest Lower Mich.	7.9%	7.1%	6.1%

Source: Michigan Department of Labor and Economic Growth. Due to methodological changes beginning in January 2004, household employment and unemployment level data are not comparable to earlier months.

### Unemployment Rates November 2004

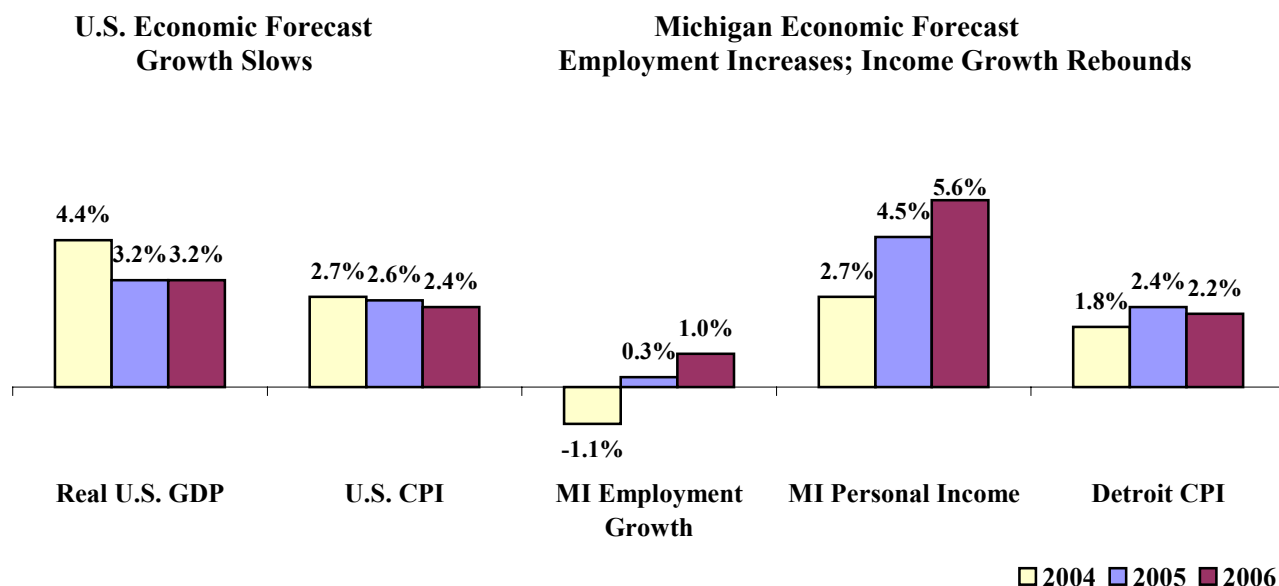


## Michigan Consensus Conference Economic Forecast

### U.S. Stronger, Michigan Begins to Recover

At the Consensus Revenue Estimating Conference held January 13, 2005, the Michigan Department of Treasury, House Fiscal Agency (HFA) and Senate Fiscal Agency (SFA) agreed on economic forecasts for 2005 and 2006. The January 2005 Executive Summary is posted on the Michigan Department of Treasury's Web site at <http://www.michigan.gov/treasury>.

- After rising an estimated 4.4 percent in 2004, real GDP growth is forecast to slow to 3.2 percent in both 2005 and 2006.
- The U.S. unemployment rate is forecast to average 5.4 percent in 2005 and 5.5 percent in 2006. Inflation is expected to remain at moderate levels, increasing 2.6 percent in 2005 and 2.4 percent in 2006.
- Light vehicle sales are forecast to average 16.8 million units in both 2005 and 2006.
- Michigan wage and salary employment is projected to increase 0.3 percent in 2005 after four straight years of decline. In 2006, wage and salary employment is forecast to grow 1.0 percent. Michigan's unemployment rate is projected to average 6.9 percent in 2005 and 6.8 percent in 2006.
- Michigan's personal income growth is projected to rise to 4.5 percent in 2005 and then increase to 5.6 percent growth in 2006. The Detroit CPI is forecast to rise 2.4 percent in 2005 and 2.2 percent in 2006. Thus real (inflation adjusted) personal income is forecast to increase 2.0 percent in 2005 and then increase 3.3 percent in 2006.



Source: January 13, 2005 Consensus Revenue Estimating Conference

## U.S. Economic Conditions

	<u>Sep-04</u>	<u>Oct-04</u>	<u>Nov-04</u>	<u>Dec-04</u>	<u>Change from Year Ago</u>
<b>KEY ECONOMIC INDICATORS</b>					
Consumer Sentiment <sup>(h)</sup>	94.2	91.7	92.8	97.1	4.5 points
ISM Manufacturing Index <sup>(i)</sup>	58.5	56.8	57.8	58.6	-4.8 points
ISM Non Manufacturing Index <sup>(i)</sup>	56.7	59.8	61.3	63.1	5.1 points
	<u>2004.1</u>	<u>2004.2</u>	<u>2004.3</u>	<u>2004.4</u>	
Business Executives' Confidence <sup>(j)</sup>	73.0	70.0	63.0	61.0	-5.0 points
<b>INFLATION <sup>(k)</sup></b>					
<b>1982-84 = 100</b>	<u>Sep-04</u>	<u>Oct-04</u>	<u>Nov-04</u>	<u>Dec-04</u>	<u>Change from Year Ago</u>
U.S. Consumer Price Index	189.9	190.9	191.0	188.9	2.5%
Detroit CPI	NA	187.6	NA	185.3	2.2%
U.S. Producer Price Index	148.7	151.9	151.7	150.4	4.1%
<b>INTEREST RATES</b>					
90 Day T-Bill <sup>(l)</sup>	1.65%	1.75%	2.06%	2.20%	1.30% points
Aaa Corporate Bonds <sup>(m)</sup>	5.46%	5.47%	5.52%	5.47%	-0.15% points
<b>INDUSTRIAL PRODUCTION <sup>(n)</sup></b>					
	115.7	116.6	116.8	117.8	4.4%
<b>CAPACITY UTILIZATION <sup>(m)</sup></b>					
	78.0%	78.5%	78.6%	79.2%	2.4% points
<b>RETAIL SALES <sup>(n)</sup></b>					
	\$341.5	\$345.0	\$345.3	\$349.4	8.7%
<b>HOUSING STARTS and SALES</b>					
(Millions Annual Rate)	<u>Aug-04</u>	<u>Sep-04</u>	<u>Oct-04</u>	<u>Nov-04</u>	<u>% Change From Year Ago</u>
Housing Starts <sup>(o)</sup>	2.018	1.905	2.065	1.807	-12.0%
Existing Home Sales <sup>(p)</sup>	6.550	6.760	6.760	6.940	13.2%
<b>DURABLE GOODS ORDERS <sup>(q)</sup></b>					
	\$195.4	\$197.4	\$195.5	\$198.2	9.3%
<b>PERSONAL INCOME <sup>(c)</sup></b>					
(Billions of Dollars)	<u>2003.4</u>	<u>2004.1</u>	<u>2004.2</u>	<u>2004.3</u>	<u>% Change From Year Ago</u>
Michigan	\$322.6	\$318.8	\$325.3	\$326.2	3.3%
U.S.	\$9,317.3	\$9,442.7	\$9,590.9	\$9,670.6	5.2%
<b>GROSS DOMESTIC PRODUCT</b>					
(Billions of Chained 2000 Dollars) <sup>(c)</sup>	<u>2003.4</u>	<u>2004.1</u>	<u>2004.2</u>	<u>2004.3</u>	<u>Annualized % Chg From Last Qtr</u>
	\$10,580.7	\$10,697.5	\$10,784.7	\$10,891.0	4.0%



**SOURCES AND NOTES:**

- (a) Seasonally adjusted. Sources: Bureau of Labor Statistics, U.S. Department of Labor and Michigan Dept. of Labor and Economic Growth, Employment Service Agency.
- (b) Bureau of Labor Statistics, U.S. Department of Labor (BLS 790).
- (c) Seasonally adjusted annual rates. Source: Bureau of Economic Analysis, U.S. Department of Commerce.
- (d) Ward's Automotive Reports.
- (e) Automotive News.
- (f) Michigan Department of Treasury.
- (g) Michigan Department of Labor and Economic Growth, Employment Service Agency.
- (h) University of Michigan Survey of Consumers.
- (i) Institute for Supply Management (ISM), formerly NAPM.
- (j) The Conference Board.
- (k) Bureau of Labor Statistics, U.S. Department of Labor.
- (l) U.S. Department of Treasury. Average of weekly averages.
- (m) Seasonally adjusted rates (except interest rates). Federal Reserve System Board of Governors. 1997 equals 100.
- (n) Retail and Food Services Sales. Bureau of the Census, U.S. Department of Commerce.
- (o) Bureau of the Census, U.S. Department of Commerce.
- (p) National Association of Realtors.
- (q) Bureau of the Census, U.S. Department of Commerce. Figures exclude semi conductors.